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UNOPS FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS BUDGET ESTIMATES FOR THE BIENNIUM 1996-1997

Revised budget estimates for the biennium 1994-1995 and budget estimates for the biennium 1996-1997

Report of the Executive Director

I. INTRODUCTION

1. The Office for Project Services (OPS) was until 31 December 1994 part of the United Nations Development Programme (UNDP) and, as such, its budget for the biennium 1994-1995 was submitted by the Administrator as part of the UNDP budget. That budget consisted of: (a) budgetary resources (financed by income earned from the implementation of UNDP-funded projects) and (b) extrabudgetary resources (financed by income earned on cost-sharing projects, trust funds and management service agreements (MSAs). Such distinction is no longer meaningful in a self-financing entity and is therefore no longer made.

2. In its decision 94/32, the Executive Board established the United Nations Office for Project Services (UNOPS) as a self-financing, separate and identifiable entity with effect from 1 January 1995. In the same decision, the Executive Board took note of the breakdown of the revised 1994-1995 budget estimates for OPS, as contained in document DP/1994/62/Add.3/Corr.1 and determined that, in future, the biennial budget estimates for UNOPS be presented separately from those of UNDP. This is the first such presentation.

3. Article VI of the UNOPS Financial Regulations stipulates that the proposed biennial budget for UNOPS be submitted to the Executive Board through the Management Coordination Committee (MCC).

4. Consequently, the present document contains both the revised budget for the biennium 1994-1995 and the budget for the biennium 1996-1997. In accordance with UNOPS Financial Regulation 6.2, both budgets have been prepared on the basis of the latest estimates of expenditures and anticipated income. The MCC has endorsed the contents of the present document.

5. UNOPS is mindful of Executive Board decision 94/30, in which the Board requested the Administrator of UNDP and the Executive Director of UNFPA to cooperate with other United Nations programmes and funds to harmonize their presentation of budgets and accounts in order to achieve greater comparability and transparency. It is the intention of UNOPS to follow this guideline to the

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extent that it is consistent with the nature of its activities and special status as a self-financing entity. With respect to budget preparation, monitoring and review, UNOPS has adopted a financial management model (see chart in annex to present document), wherein current data, as they evolve, are processed on an iterative basis, entailing a continuous review of the demand for its services (finding its expression in the project portfolio) as well as regular and frequent monitoring of the actual delivery figures and resulting income. The variables of this model provide the parameters against which the administrative budget must be tailored. This is, of course, a model much different from those used by other United Nations organizations that operate under an approved programme of work and budget and have Member States making assessed or voluntary contributions.

II. REVISED ESTIMATED INCOME AND ADMINISTRATIVE EXPENDITURES FOR THE BIENNIUM 1994-1995

A. Income

6. Total income earned in the biennium had been anticipated to reach $68 million, on which basis the original administrative budget was established (see table 2). The revised income projections (see table 1 (a)) amount to approximately $59 million, or about $9 million less than originally anticipated.

7. The UNOPS portfolio increased significantly from year to year up to the end of 1993. Therefore, it seemed reasonable to assume, during the preparation of the 1994-1995 budget, that the UNOPS portfolio and, consequently, delivery and income would continue to grow.

8. However, the expected rate of growth did not materialize. A deficit was avoided by careful management and monitoring to ensure that administrative expenditures did not exceed income.

9. Based on the value of new projects accepted during 1994 and up to 31 May 1995, it would appear that UNOPS has reached a plateau. It is now estimated that the value of its portfolio as at the end of the years 1995, 1996 and 1997 will be approximately $1 billion, or an amount similar to that which was recorded at the end of the years 1993 and 1994. Therefore, no further growth is anticipated at this time; instead it is expected that the volume of activities will remain at about the same level as in 1993 and 1994. This assumption appears to be realistic and is therefore the basis for the revised estimates (as well as for the 1996-1997 budget).

10. Based on the actual performance in 1993 and 1994, it is estimated that peak budgets, i.e., total budgets before budget revisions in any of the following years, will reach approximately 65 per cent of the total value of the portfolio for that particular year, or an amount between $650 million and $670 million. As can be seen from table 1 (a), by the end of May 1995 the total of project budgets for 1995 had already reached $629 million. With this in mind, it is anticipated that total project expenditures will reach approximately $402 million in 1995, and $405 million for both 1996 and 1997. It is also anticipated that income for those years will be just slightly in excess of the amount earned in 1994, or between $30 million and $31 million per year.

11. The value of the UNOPS portfolio as of 31 May 1995 was $816 million, consisting of $310 million for projects funded by UNDP core funds (38 per cent of the total); $193 million for projects funded by UNDP-administered and other trust funds, such as the Global Environment Facility (GEF), the Montreal Protocol and the United Nations International Drug Control Programme (24 per cent of the total); and $313 million for MSAs (38 per cent of the

total). Additional projects expected to be assigned to UNOPS for implementation between May and the end of 1995 should bring the total close to $1 billion, as indicated above.

12. Up to 31 December 1993, the budgets of projects funded by UNDP core funds made up more than 50 per cent of the UNOPS portfolio. In part as a result of the increase in the national execution of UNDP-funded projects, the budgets of UNDP-funded projects executed by UNOPS have decreased gradually over the last few years. This decrease has been offset by increases in projects funded by trust funds (particularly GEF and Montreal Protocol) and MSAs. It is anticipated that this trend will continue in the foreseeable future.

B. Administrative expenditures

13. The budget for the biennium 1994-1995 was originally established at $68,226,200 (DP/1994/62/Add.3/Corr.1), providing for 241 posts: 91 Professional and 150 General Service. The breakdown of estimates were: $41,371,200 for established posts and common staff costs; and $26,855,000 for general operating costs, including $8,355,400 (14 per cent of UNOPS expenditures) for UNDP central services.

14. Actual expenditures in 1994 totalled $27,927,000 and in the five months ending 31 May 1995 the amount spent was $11,637,000. Based on these data, it is now estimated that administrative expenditures for the current biennium will total $58,439,000 (see table 2), i.e., $9,787,200 less than the amount originally estimated. As explained above, it is anticipated that total income in the same period will be approximately $59 million, an amount slightly in excess of estimated administrative expenditures. This matching will be a consequence of management action to curtail or adjust expenditures according to the variables of demand, delivery and income.

15. The costs for salaries (established posts), common staff costs and consequently for UNDP central services are lower than originally budgeted. This is a result of a conscious effort to maintain a high vacancy rate during the period in question.

16. Management considerations for maintaining such high vacancy rates were:

(a) Income. There were indications that actual income for the biennium would be less than expected;

(b) The Kuala Lumpur outpost. When a decision to establish the outpost was made in late 1994, UNOPS headquarters staff members were given assurances that no contract would be terminated as a result of the formation of the outpost. This decision led to a deliberate attempt to keep many of the General Service Posts vacant, especially in 1994. To the extent deemed necessary, the services were provided by personnel on temporary assistance contracts. This also explains the higher amount charged under this object of expenditure and compensated for by savings under "Salaries."

The outpost was established in early 1995 and consists of four Professional and eight General Service staff. All Professionals, along with their posts, were transferred from New York to Kuala Lumpur; General Service staff were hired locally. As promised, none of the headquarters staff lost their job.

In order to provide the needed eight General Service posts for the outpost, five posts were redeployed from headquarters and three new posts were established by the Executive Director under his authority. These posts were formerly on the staffing table of the UNDP Regional Service Centre in Kuala Lumpur and the incumbents were performing work on behalf of OPS, for which UNDP was

compensated. Therefore, the establishment of these new posts did not create additional costs;

(c) Appointments of limited duration (ALD). UNOPS has taken advantage of this new contractual modality for recruiting specialists whose services are required for high demand areas for which no long-term prospects exist at present. As of 31 May 1995, a total of 11 staff members were holders of ALD contracts; an additional three are under recruitment. All the ALD staff members are in the Professional category, and a total of seven have been hired in lieu of filling existing posts.

17. Following the establishment of the three General Service posts for Kuala Lumpur, UNOPS has now a total of 244 established posts (see table 3 (a)). The Executive Board is requested to endorse the establishment of these additional posts.

18. As mentioned above, vacant posts are filled only when necessary and justified by demand and projected income. Under current circumstances and given the fact that some of the new staff have been and will be recruited using the ALD contractual modality, UNOPS considers that the current number of approved posts is in excess of actual needs. Therefore, an overall review of the established posts will be conducted in autumn 1995 to determine which posts could be abolished and which should be maintained. The Executive Director intends to discuss this issue with the MCC before the end of the year and to submit his proposal to the Executive Board in early 1996.

III. PROJECTIONS OF INCOME AND ESTIMATED BUDGET EXPENDITURES FOR THE BIENNIUM 1996-1997

19. As explained above, UNOPS does not anticipate further growth at the present stage; it is anticipated that the portfolio will remain at the same level. Consequently, it is also anticipated that project expenditures and resulting income will remain at about the same levels as in the biennium 1994-1995, possibly with small increases in administrative costs arising from inflation.

20. Based on the above and as can be seen in table 1 (b), UNOPS anticipates a total delivery of approximately $810 million in the biennium 1996-1997, or $20 million ($10 million per year) more than the total delivery for the current biennium. It is expected that this delivery will generate income totalling about $61.5 million. On the other hand, administrative expenditures in the new biennium are anticipated to reach a total of $61.4 million (table 2). These estimates are based on trends experienced in 1994 and 1995, adjusted for small increases arising mainly from inflation.

21. UNOPS resources shall continue to be managed in a manner consistent with its self-financing status. The portfolio, budgets and expenditures, income, and administrative expenditures shall continue to be monitored and managed on a monthly basis so that timely action is taken to make the necessary adjustments.

22. A review of the variables of the UNOPS financial management model has already become a standing feature of the MCC meetings. Should the value of new project budgets accepted during 1996 and 1997 fall short of expectations, decisions will be made to cut costs, including staff costs, to levels compatible with the best income estimates. Such decisions shall be made in full consultation with the Management Coordination Committee and the Executive Board shall be informed as appropriate.

IV. EXECUTIVE BOARD ACTION

23. The Executive Board may wish to take note of the present report and endorse the establishment of the three additional General Service posts for the Kuala Lumpur outpost.

Annex

TABLES

UNOPS Financial Management Model

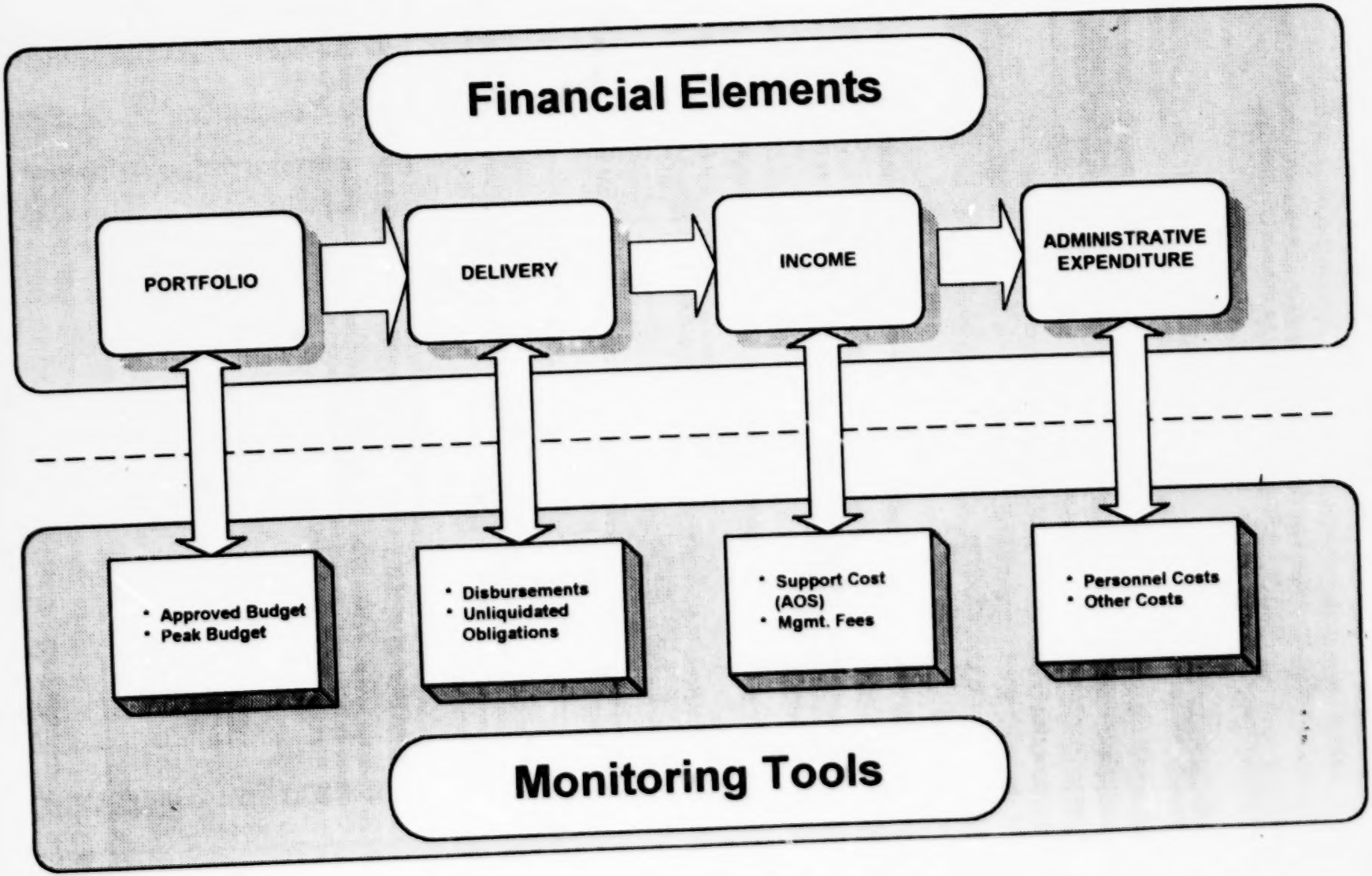

Table 1 (a). Revised projections of project expenditures (UNOPS delivery) and UNOPS income for the biennium 1994-1995 a/

(In thousands of dollars)

	Project budgets and delivery	Estimated income		
		Estimated income on delivery b/	Billings to IFAD c/	Total estimated income
Year 1994				
(a) Actual project budgets and income	387,219	26,248	2,779	29,027
Year 1995				
(b) Budgets of projects already accepted (Data as of 31 May 1995)	629,495			
(c) Expected additional 1995 budgets (for new projects expected to be accepted from 1 June to 31 December 1995)	40,000			
(d) Total estimated budgets at "peak level" for 1995 [(b)+(c)]	669,495			
(e) Estimated 1995 delivery [60% of "peak budgets" (d), and income]	401,697	27,227	3,000	30,227
(f) Total Unspent 1995 budgets [(d) - (e)] 80% of which is rephased to 1996 and 20% to 1997.	267,798			
(g) Total estimated delivery and income in the biennium [1994 (a) + 1995 (e)]	788,916	53,475	5,779	59,254

a/ Excluding portfolio, project expenditures and income related to the Programme of Assistance to the Palestinian Peoples (PAPP). UNOPS services to PAPP are limited to accounting and financial reporting, for which UNOPS receives from PAPP a total of $50,000 per year.

b/ The amounts for 1994 represent actual project expenditures and income earned in that year. For 1995 the estimated income was computed based on the same percentage of 1994 income in relation to 1994 project expenditures.

c/ For services rendered by OPS for loan administration and project supervision of IFAD projects. The IFAD loan drawdowns, which are not part of UNOPS delivery ($89 million in 1994), are reviewed and authorized for payment by UNOPS, with actual payment effected by IFAD.

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Table 1 (b). Revised projections of project expenditures (UNOPS delivery) and UNOPS income for the biennium 1996-1997 a/

(In thousands of dollars)

	Project budgets and delivery	Estimated income		
		Estimated income on delivery b/	Billings to IFAD c/	Total estimated income
Year 1996				
(a) Budgets of projects already accepted (Data as of 31 May 1995)	152,520			
(b) Rephasing of 1995 unspent budgets [80% of 267,798 (See (f) in Table 1. The rest is rephased to 1997)]	214,238			
(c) Estimated value of 1996 budgets of projects accepted from 1 June to 31 December 1995 and during 1996)	310,000			
(d) Total estimated 1996 budgets at "peak level" for 1996 [(a) + (b) + (c)]	676,758			
(e) Estimated 1996 delivery [60% of "peak budgets" (d), and income]	406,055	27,522	3,200	30,722
(f) Total unspent 1996 budgets [(d) - (e)] (80% of this amount is rephased to 1997)	270,703			
Year 1997				
(g) Budgets of projects already accepted (Data as of 31 May 1995)	23,531			
(h) Rephasing of unspent 1995 budgets (20% of 267,798 [(See (f) in Table 3	53,560			
(i) Rephasing of 1996 unspent budgets [80% of 270,703 . See (f) above]	216,563			
(j) Estimated value of 1997 budgets of projects accepted from 1 June to 31 Dec. 1995, and during 1996 and 1997)	380,000			
(k) Total estimated budgets at "peak level" for 1997. [(g) + (h) + (i) + (j)]	673,653			
(l) Estimated 1997 delivery [60% of "peak budgets" (k), and income]	404,192	27,396	3,400	30,796
(m) Total unspent 1997 budgets [(k) - (l)] (80% and 20% to be rephased to 1998 and 1999 respectively)	269,461			
(n) Total estimated delivery and income in the biennium [1996 (e) + 1997 (l)]	810,247	54,919	6,600	61,519

a/ Excluding portfolio, project expenditures and income related to the Programme of Assistance to the Palestinian Peoples (PAPP). UNOPS services to PAPP are limited to accounting and financial reporting, for which UNOPS receives from PAPP a total of $50,000 per year.

b/ The amounts for 1994 represent actual project expenditures and income earned in that year. For 1995 the estimated income was computed based on the same percentage of 1994 income in relation to 1994 project expenditures.

c/ For services rendered by OPS for loan administration and project supervision of IFAD projects. The IFAD loan drawdowns, which are not part of UNOPS delivery ($89 million in 1994), are reviewed and authorized for payment by UNOPS, with actual payment effected by IFAD.

Table 2. Revised budget estimates for the biennium 1994 -1995 and budget estimates for the biennium 1996-1997

(In thousands of dollars)

Object of expenditure	Approved estimates 1994 - 1995	Actual expenditure 1994	Estimated expenditure 1995	Revised estimates for biennium 1994-1995	Estimates for biennium 1996 - 1997
010 SALARIES	26,929.3	10,820.0	11,500.0	22,320.0	23,000.0
100 COMMON STAFF COSTS	14,441.9	6,053.0	6,500.0	12,553.0	13,000.0
030 TEMPORARY ASSISTANCE	610.2	1,234.0	1,200.0	2,434.0	2,000.0
070 ACTIVITIES OF LIMITED DURATION (ALDs)	950.0	241.0	800.0	1,041.0	2,500.0
040 CONSULTANTS	930.0	599.0	650.0	1,249.0	1,300.0
050 OVERTIME	551.5	118.0	130.0	248.0	250.0
220 OTHER STAFF TRAVEL	1,593.2	513.0	600.0	1,113.0	1,250.0
310 CONTRACTUAL PRINTING	250.0	32.0	50.0	82.0	90.0
330 TRANSLATION	95.5	(3.0)	50.0	47.0	50.0
340 SYSTEM DEVELOPMENT CONTRACTS	2,000.0	519.0	600.0	1,119.0	1,000.0
350 SUBCONTRACTS	1,100.0	306.0	350.0	656.0	700.0
410 RENT AND MAINTENANCE	4,855.0	2,057.0	2,100.0	4,157.0	4,400.0
420 UTILITIES	274.6	96.0	100.0	196.0	200.0
430 RENT AND MAINTENANCE OF EQUIPMENT	273.3	97.0	100.0	197.0	200.0
440 COMMUNICATIONS	1,948.0	912.0	950.0	1,862.0	1,900.0
450 HOSPITALITY	18.0	1.0	5.0	6.0	10.0
490 MISCELLANEOUS SERVICES	446.1	216.0	220.0	436.0	450.0
510 OFFICE SUPPLIES	897.8	223.0	230.0	453.0	500.0
610 OFFICE FURNITURE AND EQUIPMENT	441.2	58.0	100.0	158.0	115.0
620 MICROCOMPUTERS HARDWARE/SOFTWARE	717.9	330.0	350.0	680.0	700.0
630 TRANSPORTATION OF EQUIPMENT	16.0	0.0	30.0	30.0	20.0
710 REIMBURSEMENT FOR NYCS/ICC	531.3	14.0	150.0	164.0	250.0
Subtotal	**59,870.8**	**24,436.0**	**26,765.0**	**51,201.0**	**53,885.0**
750 REIMBURSEMENT FOR CENTRAL SERVICES a/	8,355.4	3,491.0	3,747.0	7,238.0	7,543.9
GRAND TOTAL	**68,226.2**	**27,927.0**	**30,512.0**	**58,439.0**	**61,428.9**

a/ Budgeted at 14 per cent of the total of all other expenditures

Table 3 (a). Staffing table

Post level	Approved (DP/1994/62/Add.3)	Reclassification a/	Additional posts b/	Revised staffing table
Professional and above				
ASG	1	0	0	1
D-2	1	0	0	1
D-1	9	0	0	9
P-5	31	0	0	31
P-4	29	0	0	29
P-3	16	0	0	16
P-2/1	4	0	0	4
Subtotal	**91**	**0**	**0**	**91**
General Service				
Principal level	49	-1	0	48
Other level	101	1	3	105
Subtotal	**150**	**0**	**3**	**153**
Grand total	**241**	**0**	**3**	**244**

a/ One G-6 post reclassified to G-5.

b/ Posts established by the Executive Director for the UNOPS Outpost in Kuala Lumpur.

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Table 3 (b). Distribution of posts (filled/vacant)

Post level	Revised staffing table (Table 3)	Filled (By reg. staff)	(By ALDs)	In process of recruitment	Vacant	Total
Professional and above						
ASG	1	1	0	0	0	1
D-2	1	1	0	0	0	1
D-1	9	6	0	0	3	9
P-5	31	29	0	0	2	31
P-4	29	21	5	2	1	29
P-3	16	12	2	1	1	16
P-2/1	4	1	0	0	3	4
Subtotal	91	71	7	3	10	91
General Service						
Principal level	48	48	0	0	0	48
Other level	105	85	0	2	18	105
Subtotal	153	133	0	2	18	153
Grand total	244	204	7	5	28	244

a/ Includes 3 additional posts established for Kuala Lumpur, Malaysia.

Source: OPS staffing list dated 16 June 1995.